



Which Should You Buy: Loblaw Companies Ltd. or Saputo Inc.?

Description

Saputo Inc. ([TSX:SAP](#)) is a large dairy producer that uses billions of litres of milk every year to produce a wide range of dairy products, including several types of cheeses. With sales in over 40 countries around the world, the company has a lot of reach, and its performance isn't dependent on any single economy. The company provides its own branded products in addition to serving the private label needs of its customers.

Saputo also has a broad customer base with half coming from the retail segment, including supermarkets and convenience stores. Just under 40% of its sales come from sales to broadline distributors, and this includes private label sales. The remaining 10-11% comes from food processing companies that use Saputo ingredients during manufacturing. With a broad mix of customers, the company is well diversified, and this helps to minimize its risk and exposure to any individual segment.

Cheese and dairy products aren't new, so you wouldn't expect Saputo to see much growth, but that hasn't been the case. Total revenue for the company has increased by over 52% over the past four years. In its most recent annual filing, the company reported revenues of \$11 billion and a strong net income of \$731 million; both numbers have been progressively increasing year over year.

With a compounded annual sales growth rate of over 11%, Saputo has seen strong and gradual increases in revenue. However, the most recent fiscal year only saw sales growth of 1.5%, and 3% the year prior. Sales are growing at a decreasing rate and may suggest the company has reached a ceiling.

The share price is a little expensive, as it is trading over 22 times its earning and almost four times its book value.

Loblaw Companies Ltd. ([TSX:L](#)) is no longer just a major operator of grocery stores in Canada; it has segments in financial services and also develops income-producing commercial properties through its **Choice Properties** brand. However, retail revenue is still the company's main source of income, and with \$45 billion in sales for 2016, it made up almost 98% of all revenue. Financial services contributed \$911 million in sales, followed by Choice Properties, which added \$784 million.

Like Saputo, Loblaw has seen steady revenue growth as well. The company's revenues grew from \$31

billion in 2012 up to \$46 billion most recently in 2016 for total growth of over 46%. Year over year, the company is averaging 10% increases in revenue. However, Loblaw has also run into a ceiling with revenues only increasing by 2% the past year and 6.5% the year before that.

The key advantage that Loblaw has over Saputo is its sheer size and ability to expand its operations into other segments. While Saputo is limited to dairy products, Loblaw has expanded into other industries, and that is where the company still has plenty of growth opportunities available to it. However, Loblaw still plans to grow its retail sales as well with investments of \$1 billion planned for 2017.

Bottom line

It is hard to go wrong with either company here, as both are solid brands in Canada that have seen strong sales growth over the years. But if I had to choose one, it would be Loblaw, since the company has a lot more opportunity to grow and covers multiple industries.

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